Chapter IX:

Finance Opportunities in the Mexican Environmental Export Market

Overview

This chapter identifies some of the finance possibilities that exist for U.S. companies interested in exporting environmental technology to Mexico and the different finance options (loans, grants, guarantees, etc.) that exist for Mexican companies (small, medium, large) and municipalities to acquire environmental technology and/or services. Project financing is currently one of many challenges to environmental market growth in Mexico.

The environmental sector has largely recovered from the 1994 peso devaluation that severely crippled most of the Mexican economy. The majority of environmental projects then under construction had been financed by loans with variable interest rates, but surging interest rates generated by the peso devaluation cancelled or postponed many of them. Although today the environmental sector market volume is still not quite up to pre-devaluation levels, economic forecasts suggest steady growth rates in the environmental sector market over the next few years. It is expected that the total market volume will reach pre-devaluation levels in the near future.

Although financing for projects is available in Mexico, it is often expensive for Mexican businesses and municipalities due to high interest rates and other fees. By law, only the federal government can incur foreign debts. As such, all low-interest loans and bonds provided by multilateral banks must be channeled through either BANOBRAS, the national development bank; FINFRA, the private-sector development bank; or the Central Bank of Mexico before they reach the municipalities or companies that applied for them. Since most loans are granted in U.S. dollars and must be converted to Mexican pesos, a mark-up is charged to cover transaction costs and spread fees, making low-interest loans quite expensive. Another consideration is the fact that the national development banks and the Central Bank of Mexico do not charge lower interest rates for foreign-origin loans. Rather, interest rates reflect domestic market rates.[1]

The border region presents a slightly different scenario because states and municipalities can apply for direct loans through NADBank, thereby lowering costs considerably. In the 1998–1999 period, the NADBank created a financial entity in Mexico precisely for that purpose called the Sociedad Financiera de Objetos Limitados (SOFOL), which allows it to directly convert U.S.-denominated loans into pesos, thus bypassing BANOBRAS and FINFRA.[2]

In 2001, the Mexican government passed a fiscal reform package for Mexico's securities and exchange markets. This package included specific legislation authorizing Mexican municipalities and states to issue certified debt (i.e., municipal and state bonds). Although municipalities and states have yet to issue bonds, they have been working closely with both Moody's and Standard & Poor's to obtain credit ratings in preparation for future bond issuances. Twenty-three states and nearly 30 municipalities have been rated so far by agencies such as Standard & Poor's. Both the municipality of Tijuana and the state of Baja California were rated in the year 2000 by Standard & Poor's and received among the highest marks in the nation.[3]

Location	Date Rating Received	Rating *
City of Tijuana	05-Sep-00	mxAA
State of Baja California	17-Nov-00	mxAA-
State of Baja California Sur	17-Nov-00	mxA-

*These are state and municipal ratings; sovereign (country) ratings reflect the overall debt ratings (both in local and foreign currency) in a given country.

In February 2002, Mexico was only the fourth country in Latin America to receive a triple "B" foreign currency sovereign credit rating. The "BBB-" is an investment grade rating that makes it attractive for companies and institutions to invest more money and make loans in Mexico; it reflects that Mexico's currency is stable enough to repay incurred foreign debts without the danger of short-term illiquidity and fluctuating foreign exchange rates. [4]

The passage of this new fiscal law will likely have far-reaching consequences for the financing of new projects across the country since it will considerably facilitate the potential for the Mexican public sector to obtain loans and finance the construction of much-needed infrastructure projects. As seen in the proposed use of funds by the Municipality of Aguascalientes, public works projects likely to receive funding will include regional development plans, urban electrification, water projects, and other basic infrastructure. A short explanation of all the different financing possibilities for both the private and public sectors is given below. Some of this information is based on a report provided by the Office for Environmental Technologies Industries, a department in the International Trade Administration in the U.S. Department of Commerce.

Finance Possibilities for Californian Companies

Debt Financing[5]

Core features: Loans are the most traditional method of financing in the United States. The debt creates an obligation to pay back the loan with interest over a specified period. Debt holders acquire a claim to a business' income, earnings, or assets that takes precedence over the claim of equity holders. Once the obligation is met, creditors have no say in the business, unlike equity investors. However, because of a lack of credit history and other perceived risks of small businesses, debt can be costly, hard to find, and when available, rigid terms can be tough if earnings decline.

Types: Many debt instruments are available from the U.S. private sector to finance environmental exports and overseas projects. Commercial banks provide the bulk of trade finance, commercial lending, and project finance. Bonds, which are usually underwritten by investment banks, are a major financing vehicle used by private firms to obtain working capital and by governments to fund specific projects. In addition, various types of infrastructure funds, both public and private, global and domestic, are available. Examples of such funds are provided throughout this chapter because infrastructure funds provide both equity and debt. Debt finance vehicles available from international markets (not discussed here) include syndicated loans and Eurobonds.

The U.S. Government and the governments of other industrialized countries, as well as multilateral aid agencies, make up the bulk of public-sector lenders. Very often, private lenders are reluctant to finance export transactions or projects abroad because the risk of not getting paid or not obtaining forecasted revenues is much larger than with purely domestic ventures. To cover deals that cross national borders, lenders often require more protection against nonpayment.

Limitations: Borrowing money will be more costly and the terms more variable for small or start-up firms than for established companies. Ease of borrowing also depends on how well the economy is doing. The obligation to repay outstanding loans is paramount, even in times of operating deficits.

For more information: DeThomas, Arthur R. 1992. *Financing Your Small Business: Techniques for Planning, Acquiring and Managing Debt.* Oasis, 1-800-228-2275.

Debt Financing

Financing possibilities for Californian companies

Private Sources of Debt Finance
- Commercial Banks
- Business Development Corporations (BDC)
- Infrastructure Investment Funds
- Private Export Funding Corporation

Public Sources of Debt Finance
- U.S. Small Business Administration (SMA)
- Overseas Private Investment Corporation (OPIC)
- California Export Finance Office (CEFO)
- California Infrastructure and Economic Development Bank (I-Bank)

Agencies that provide funds to both Californian and Mexican companies

- Export-Import Bank of the United States
- NADBank
- EPA

Finance possibilities for Mexican companies and municipalities

Private Sources of Debt Finance
- Commercial Banks

Public Sources of Debt Finance
- Fondo de Inversion en Infraestructura (FINFRA), part of the national development bank BANOBRAS
- Nacional Financiera (FINFRA)
- Fundación Mexicana para la Innovación y Transferencia Tecnológica (FUNTEC)
- CleanTech Fund
- Municipal Bond Issuing

Loans from Multilateral Development Banks
- World Bank
- Inter-American Development Bank (IADB)
- Japan Bank for International Cooperation (JBIC)

Bond and Equity Capital
- Municipal Bonds
- State Bonds
- Equity Capital

Private Sources of Credit Finance[6]

Commercial Banks

Basics: Banks loan money for specific time periods. The borrower repays the loan in monthly installments covering a portion of the principal loaned, plus an interest charge reflecting the bank's expenses and the risks assumed in making the loan. Commercial banks are the most common providers of trade finance and commercial lending. Commercial bank repayment terms (also called loan tenors) range from several months to several years. Commercial banks, individually or in syndicated loan arrangements, are also a major source of project finance. Commercial banks may also participate in project finance lending under export credit agency guarantees in risky countries or when extended repayment terms are involved.

Terms: Banks offer secured and unsecured loans. For a secured loan, the borrower puts up collateral in case of default. An unsecured loan carries a higher interest charge based on the credit of the borrower. A line of credit is an open account on which the borrower may draw up to the limit.

Eligibility: Because banks provide loans, not equity, they are more interested in a firm's cash flow than in the value of its underlying assets. Most established businesses with good credit histories and an ability to show profit can get bank financing. Start-ups, with the exception of franchises, have a more difficult time.

Environmental/export focus: If local bank seems reluctant to lend money to new export efforts, try the U.S. Department of Commerce, which maintains information on public and private finance institutions that offer trade finance.

For more information:
U.S. Department of Commerce
International Trade Administration
Office of Finance.
Tel: (202) 482–3050.
On the web: http://www.ita.doc.gov

In San Diego:
U.S. Department of Commerce
Julia Rauner Guerrero
Commercial Officer
6363 Greenwich Drive, Suite 230
San Diego, CA 92122
Tel.: (619) 557–2963
Fax: (619) 557–6176
E-mail: julia.rauner.guerrero@mail.doc.gov.

Business Development Corporations

Basics: Business development corporations (BDCs) are licensed by states to make loans to small businesses to support job creation. They are generally owned and funded by financial institutions or corporations interested in business in a vigorous local economy. Beyond standard loans, BDCs can also make SBA-guaranteed loans and provide purchase/leasebacks and venture capital.

Terms: BDCs can usually make loans 90 percent guaranteed by the SBA.

Eligibility*:* BDC assistance is available exclusively to small businesses.

Environmental/export focus*:* BDC-type funding could be used to support small environmental firms or as a source of growth capital for start-ups in the environmental sector. It is more appropriate as a source of growth capital than as a source of export financing.

For more information:

Association of Small Business Development Centers
3108 Columbia Pike # 300
Arlington, VA 22204.
Tel: (703) 271–8700.
On the web: http://www.asbdc.net
For information on Development Centers
in your area go to:
http://www.smallbusinesslearning.com

In San Diego:

Southwestern College
Small Business and International Trade Center
900 Otay Lakes Road, Building 1600
Chula Vista, CA 91910
Tel.: (619) 482–6391
On the web: http://www.sbditc.org

Infrastructure Investment Funds

Basics: Such funds are investing ever greater amounts in developing countries, where yields are expected to exceed 20 percent annually in some cases, which is much more than yields from mature infrastructure projects in industrialized economies. Most investors in such funds are institutional, with large pools of capital seeking high, but secure, returns. Funds are channeled to sponsors, whether public or private, of infrastructure projects, often in developing countries.

Terms*:* As variable as the funds themselves.

Eligibility*:* Infrastructure funds often invest in the securities of infrastructure entities through private placements. Infrastructure investment funds can be a group of investors or may be project cosponsors involved in structuring deals and mobilizing further capital.

Environmental/export focus: Examples of such funds are found throughout this chapter.

Private Export Funding Corporation

Basics*:* The Private Export Funding Corporation (PEFCO) is a consortium of private lenders that supplements conventional export financing sources. PEFCO works in concert with the Export-Import (Ex-Im) Bank of the United

States, and all PEFCO loans are required to be covered by either an Ex-Im Bank's guarantee or insurance policy or by a guarantee issued by the U.S. Small Business Administration (SBA). PEFCO lends money to foreign buyers making large-scale purchases, usually of capital equipment, when the amounts are larger or the repayment periods longer than traditional lenders can offer.

***Terms**:* Loans (short, medium, and long term) range from $1 to $225 million for 5- to 22-year terms and are sponsored by domestic and foreign banks. Fees and rates reflect the market.

***Eligibility**:* Loan requests must come from a commercial bank.

***For more information**:* *Private Export Funding Corporation*
280 Park Avenue — Tel: (212) 916–0300
New York, NY 10017 — On the web: http://www.pefco.com

Public Sources of Debt Financing

Loans

Basics: Many sources of debt financing are available from the U.S. Government for the export of goods and services, as well as environmental investment projects abroad. This section briefly outlines U.S. Government-backed lending. In the United States, the major players in public-sector lending are the U.S. Small Business Administration (SBA), the Overseas Private Investment Corporation (OPIC), and the Ex-Im Bank.

U.S. Small Business Administration[7]

Basics: The SBA has one loan program of interest to small or start-up companies. It can include loans for funding increases in export sales to loans for establishing an overseas presence.

***Terms**:* The Export Working Capital Program (EWCP) guarantees short-term loans up to $1,111,111 for a maximum guarantee of 90 percent ($1,000,000 for product/service export purposes, extendible to preshipment working capital and post shipment exposure), including labor and materials for manufacturing, raw material purchases, or foreign accounts receivable.

The Regular 7(a) Loan Program guarantees loans up to $2,000,000 for a maximum guarantee of up to 50 percent ($1,000,000); the interest rate caps at 2.75 points above the New York prime rate for loans of up to seven years. The International Trade Loan Program offers long-term fixed-asset financing to help small firms compete globally. Guarantees are up to a loan amount of $1.25

million, maturities can be as long as 25 years, and the collateral must be located in the United States. The interest rate is 2.25 percent.

***Eligibility**:* Only small businesses that are independently owned and operated, not dominant in their field, and falling in specific employee and annual sales ranges (depending on the industry) are eligible.

For more information: *United States Small Business Administration*
Office of International Trade
409 3rd Street, SW, 6th Floor
Washington, D.C. 20416.

For regional Small Business Development Centers, which provide business assistance including export and trade counseling/referrals, call 1–800–8–ASK SBA (1–800–827–5722). See the Insider's Guide to Small Business Loans, by former SBA official Dan Koehler, Oasis, 1–800–228–2275, 1996. On the Web: http://www.sba.gov

Overseas Private Investment Corporation[8]

Basics: OPIC supports U.S. business investment in developing countries. Programs include loans, insurance, and guarantees with a firm to analyze and structure financing for an overseas environmental project. It should be noted that OPIC supports overseas investment rather than exports, which are the Ex-Im Bank's focus.

Terms: Direct loans are available to small business, generally for $2 to $10 million with a repayment range of three to seven years. OPIC can provide loans of up to $30 million. For investment insurance, OPIC can insure up to $200 million per project, covering 90 percent of the political risks. For investment finance (project loans and guarantees), OPIC guarantees range up to $250 million and cover 100 percent of the commercial and political risks. The repayment range is three to 15 years. Interest rates on investment finance are market based.

Eligibility: OPIC does not provide export financing. Projects must have a positive effect on U.S. employment, be financially sound, have significant developmental benefits, and meet worker rights and environmental criteria. OPIC will give special consideration to projects in less-developed countries and those involving small U.S. firms as sponsors.

Environmental/export focus: OPIC has established the Environmental Enterprises Development Initiative to spur investment by U.S. environmental firms in Asia. OPIC also supports the Aqua International Partners Environmental Fund.

For more information: *Overseas Private Investment Corporation*
1100 New York Avenue, NW
Washington, D.C. 20527.
Tel: (202) 336–8400.
On the Web: http://www.opic.gov

California Export Finance Office (CEFO)

Basics: CEFO provides loan guarantees and helps companies that are based in California arrange working capital in order to export California goods and services to foreign countries. CEFO evaluates company eligibility for the program and then acts as a guarantor or advocate between company and the bank. CEFO has over 100 participating financial institutions throughout California.

***Terms**:* CEFO offers three different types of guarantees: a pre-shipment working capital guarantee; a post-shipment accounts receivable guarantee; and a combination guarantee. All three guarantee a maximum of 90% of a loan. The maximum principal that CEFO will guarantee is $750,000, but CEFO can work with federal institutions such as the Small Business Administration and the Ex-Im Bank of the United States in order to guarantee a higher sum of working capital if needed.

***Eligibility**:* Exporters who receive guarantees through CEFO must be domiciled in California and must be able to present proof of filing California state tax returns. Borrowers must possess at least one year of successful sales history with continuing sales growth and improving or stable profits. All exporters must have a positive net worth and sufficient cash flow to meet expenses for at least one quarter beyond the term of the guarantee. Products must have a California content greater than 50 percent of the total F.O.B. carrier value. Transactions must result in net economic benefit to the State of California by creating jobs and generating export sales.

***For more information**:*

California Export Finance Office
California Technology, Trade, and Commerce Agency
1102 Q Street, Suite 6000
Sacramento, CA 95814
Tel: (916) 324–5511
Fax: (916) 324–5791

California Infrastructure and Economic Development Bank (I-Bank)

Basics: The California Infrastructure and Economic Development Bank (I-Bank) administers two finance programs for Californians. The **Infrastructure State Revolving Fund (ISRF) program** provides low-cost financing and technical assistance for public infrastructure investments made by municipal organizations. The **Bond Financing Program (BFP)** provides low-cost, tax-exempt bonds for manufacturing companies, nonprofit corporations, and public agencies.

***Terms**:* Financing through the ISRF program is available for loans between $250,000 to $10 million per project. Jurisdictions may not exceed a total of $20 million from this program. Loans are available for periods up to 30 years, but may not exceed the useful life of the project. The interest rate is fixed at 67% of an A-rated bond rate. To participate in the program, borrowers must pay a loan origination fee of 0.85% of the principal and a servicing fee of 0.30% of the principal. The BFP provides industrial development bonds that are conduit revenue bonds issued by a governmental agency but based on the terms of a loan. Neither the State of California nor the I-Bank is responsible for paying the bond. The program provides a maximum of $10 million for facilities and/or equipment to be used in manufacturing or processing at annualized costs that are 2-4% lower than other financing. Funds may also be used for construction and take-out financing.

***Eligibility**:* Eligible applicants for the ISRF include: cities, counties, special districts, redevelopment agencies, and assessment districts. Applicants must be able to repay the loan via the following sources: general fund revenues, enterprise fund revenues, tax increment revenues, assessment revenues, or other recurring revenues approved by the I-Bank. To be financed through the BFP, a project must create jobs or have another defined public benefit.

***For more information**:*

California Infrastructure and Economic Development Bank (I-Bank)
1102 Q Street, Suite 6000
Sacramento, CA 95814
Tel: (916) 322–1389
Fax: (916) 322-6314
On the Web: http://www.ibank.ca.gov

Agencies that Provide Funds to Both Californian and Mexican Companies

Export-Import Bank of the United States[9]

Basics: The Ex-Im Bank’s mission is to support the U.S. private sector by financing exports. Its focus is on transactions the private sector cannot support alone. Although the Ex-Im Bank provides mostly guarantees and insurance, it does support some direct loan programs.

***Terms**:* *Medium- and long-term loans:* The foreign buyer/borrower can qualify for financing up to the lesser of 85 percent of the value of the U.S. content of the export transaction. Typical repayment terms range between five and 10 years, depending on the export value, the product or project being financed, the importing country, and the term offered by officially supported competitors.

Generally, relatively rich countries are expected to repay in the space of five years while repayment terms for relatively poor countries can be extended to up to 10 years. The borrower must make a 15 percent cash payment, not financed by the Ex-Im Bank, to the exporter. Smaller, short-term transactions can be financed through Ex-Im's export credit insurance.

Tied-aid capital projects fund: Evidence of foreign, officially supported export credits on concessional terms is required to enable Ex-Im to match the terms, structured as low-rate loans for 100 percent of export value. However, Ex-Im matches only cases that are confirmed matches of a foreign offer and that meet its tied aid guidelines. Tied aid usually involves maturities longer than 20 years, interest rates equal to one-half to two-thirds of the market rate in the currency of denomination, or large grants (equal to more than 35 percent of contract value) offered in conjunction with regular export credits.

Ex-Im offers direct loans and guaranteed loans for project finance for large capital equipment and service contracts where repayment depends on future project-revenue streams. Fees and interest rates for all programs are risk based.

Working capital guarantee program: This program encourages commercial lenders to make loans to U.S. businesses for various export-related activities. These might include the purchase of finished products for export, the purchase of raw materials and labor, the costs to cover up bonds, letters of credit, warranties and so on. The program is aimed at small- and medium-sized businesses that have exporting potential but lack the necessary funds to purchase or export products or services. The Ex-Im Bank working capital guarantee covers 90 percent of the loan's principal and accrued interests. Guaranteed loans must be collateralized. The Ex-Im Bank imposes no interest rate ceilings or maximum fee limitations, however, the lender should take into account that 90 percent of the risk is covered by an agency of the U.S. Government and price their loans accordingly.

***Eligibility**:* Only foreign buyers (including foreign government entities) can receive direct or guaranteed loans to purchase U.S. goods and services. U.S. small- and medium- sized businesses can apply for the working capital guarantee program. Overall, small businesses (fewer than 500 employees) and environmental exporters receive priority.

***Environmental/export focus**:* The Ex-Im Bank has an Environmental Exports Program that generated $394 million worth of exports of environmentally beneficial U.S. goods and services. It also provided $68 million in working capital guarantees to U.S. businesses. The program features greater support for financing of environmental sector goods and services, including local cost coverage of 15 percent, capitalization of interest during construction, and the longest permissible repayment terms under the rules of Organization for Economic Cooperation and Development (OECD).

For more information: *Export-Import Bank of the United States*
Business Development
811 Vermont Avenue, NW
Washington, D.C. 20571.
Tel: 1–800–565–EXIM or (202) 565–3946.
On the web: http://www.exim.gov

North American Development Bank (NADBank)[10]

Basics: The North American Development Bank (NADBank) and its sister institution, the Border Environment Cooperation Commission (BECC), were created under the auspices of the North American Free Trade Agreement (NAFTA). The NADBank operates under the 1993 *Agreement Between the Government of the United States of America and the Government of the United Mexican States Concerning the Establishment of a Border Environment Cooperation Commission and a North American Development Bank.* The NADBank is a bilaterally funded, international organization in which the United States and Mexico are equal partners. It was established for the purpose of financing environmental infrastructure projects in a one hundred-kilometer corridor on each side of the U.S.-Mexican border. Its main functions are the promotion of public and private capital investment in BECC projects, the supplementation of such investment with NADBank loans and guarantees, and providing technical assistance to finance BECC projects. All NADBank projects must be certified by the BECC before they are eligible for funding; be related to potable water supply, wastewater treatment, or municipal solid waste management; and be located in the border region. Recently, the project areas to which NADBank can loan have been expanded to include those in air quality control, transportation, watershed conservation and management, clean and efficient energy, industrial and hazardous waste, and soil remediation. The authorized capital of the NADBank totals $3 billion, with equal payments from the United States and Mexico. Fifteen percent of the banks' capital is paid-in capital (liquid capital), while the rest of the funds are callable capital, meaning it can be provided by the two member countries as needed.

The NADBank operates a number of financing programs, the most important being the Loans and Guarantee Program, the Border Environmental Infrastructure Fund (BEIF) the Solid Waste Planning and Design Program (SWPD) and the Solid Waste Environmental Program (SWEP). Both the SWPD and the SWEP programs were explained in the chapter on solid waste in this report.

The Loans and Guarantee Program is intended to fill those financing gaps where private-sector funding is not available. It can provide or guarantee loans to both private and public sector borrowers in the United States and Mexico under varying terms. Direct loans, interim financing, participation in municipal bond issues, and partial loan guarantees are possible.

The BEIF provides funding for projects in the poorest communities along the border. It receives and administers grants from other institutions, such as the EPA, which can then be combined with loans and guarantees to facilitate project financing through reducing the effective interest rate.

Terms: All three require BECC certification of all projects. Under the Loans and Guarantees Program, the NADBank cannot accept exposure of more than 50 percent of the total capital cost of the projects. Maturities range up to 25 years and grace periods are sometimes granted. Project cash flows and assets may be used as a loan collateral. Interest rates are market based and fees vary.

Eligibility: Under the Loans and Guarantees Program, all infrastructure projects on both sides of the border related to potable water, water pollution, wastewater treatment, municipal solid waste, and similar areas are eligible, but must be BECC certified. The BEIF only funds and administers municipal projects dealing with water and wastewater infrastructure. The projects must show benefits on the U.S. side of the border.

For more information:

North American Development Bank
203 S. St. Mary's, Suite 400
San Antonio, TX 78205.
Tel: (210) 231–8000 Fax: (210) 231–6232.
On the web: http://www.nadbank.org

Border Environment Cooperation Commission
Blvd.Tomas Fernandez, No.8069 Fracc. Parques
C.P.32470 Cd. Juárez, Chihuahua,
México
Tel: (011–52–16) 25–91–60
Fax: (011–52–16) 25–61–80
On the web: http://www.cocef.org

U.S. Environmental Protection Agency (EPA)[11]

Basics: The EPA's responsibility as a U.S. government agency is to protect human health and safeguard the natural environment. The agency works with both the industrial sector and all levels of government in a variety of voluntary pollution prevention programs and energy conservation efforts throughout the United States. Over the next 7 to 10 years, the U.S. government plans to funnel nearly $700 million in construction grants through the EPA for infrastructure projects along the border. EPA grants will be used to develop projects for certification and to supplement funding for projects that cannot be completely financed by the NADBank, state or governments, or the private sector. As a member of both BECC and the NADBank, EPA tries to ensure that all of its funds are used only for high quality projects.

Terms: U.S. government grant terms apply.

Eligibility: Drinking water and wastewater treatment infrastructure projects in Mexican-U.S. border region are most eligible for EPA grants. All projects must be certified by the BECC.

For more information:

EPA Regional Office for California:
U.S. EPA Region 9
75 Hawthorne Street
San Francisco, CA 94105
On the web: http://www.epa.gov

Finance Possibilities for Mexican Companies

Private Sources of Credit Financing

Commercial Banks[12]

Basics: Numerous commercial banks in Mexico offer credit lines and loans to small and medium sized Mexican companies. Terms are from six months to seven years with varying interest rates depending on the credit line or loan granted. For more information on commercial banks, please see section one of this chapter.

For more information: *BANCOMEXT*
Centro Bancomext Tijuana
Blvd. Gral. Abelardo C. Rdgz. No.1405, Esq. con Frida Kahlo
Zona del Río
22320 Tijuana
Baja California, México
Tel.: (011–52–664) 634–2642
Fax: (011–52–664) 634–7694
On the web: http://www.bancomext.com

Banco Santander, Banco Bital, and Banorte all have numerous branch offices in Baja California and Baja California Sur. Their branch offices can be accessed through their web pages.

BANCO SANTANDER	BANCO BITAL	BANORTE
www.santander.com.mx	www.bital.com.mx	www.gfnorte.com.mx

Public Sources of Debt Financing

Fondo de Inversión en Infraestructura[13]

Basics: Fondo de Inversion en Infraestructura (FINFRA), the Mexican government's infrastructure fund, is part of Mexico's national development bank, BANOBRAS. FINFRA's goal is to encourage private-sector participation in basic infrastructure projects with high social returns where financial returns may be below market rates or where financing is difficult to obtain because of size, maturity, or risk.

Terms: FINFRA's equity participation is limited to 35 percent and it expects the same financial return that private-sector partners would. FINFRA also offers long-term subordinated debt at costs up to 40 percent of total project investment. FINFRA's combined involvement cannot exceed 49 percent of total project investment.

***Eligibility**:* Water supply and water treatment are favored sectors for FINFRA. Any combination of public and private entities may apply to BANOBRAS. Preference is given to Mexican-led projects.

***Environmental/export focus**:* FINFRA has a strong focus on environmental infrastructure and is thus considered an important source of funds for purchases of exports in this sector.

***For more information**:* *FINFRA office at BANOBRAS*
Tecoyotitlan 100, Esquina Francia; Colonia Florida
03010 México D.F.
Tel: (525) 723–6200.
On the web: http://www.banobras.gob.mx

Nacional Financiera, S.A.[14]

Basics: Nacional Financiera, S.A., (NAFINSA or NAFIN) is the Mexican private-sector development bank. It focuses on lending to small- and medium-sized industry.

Terms: Medium- and long-term loans are available at fixed and variable rates for up to 12-year terms with up to two-year grace periods.

***Eligibility**:* Mexican companies, investors, and government authorities may borrow from NAFINSA to purchase a broad range of goods and services. U.S. firms would most likely access NAFINSA through a local Mexican partner or customer.

***Environmental/export focus**:* The bank manages 32 trade finance credit lines funded by various governments and private entities to help small and medium enterprises finance imports. Between $5 million and $50 million is available from each of these credit lines each year. More active in the environmental area recently, NAFINSA has a $245 million loan program dedicated to water and energy conservation projects.

***For more information**:* *Nacional Financiera, S.A.*
Insurgentes Sur 1971; Torre IV Col. Guadalupe Inn
CP Delegación Alvaro Obregón
01020 México, DF. México.
Tel: (01) (525) 325–6000
On the web: http://www.nafinsa.com

FUNTEC[15]

Basics: FUNTEC, the Mexican Foundation for Innovation and Technology Transfer in Small-and Medium-Sized Companies (*Fundación Mexicana para la Innovación y Transferencia de Tecnología en la Pequeña y Mediana Empresa*), was jointly created by the Mexican government and the Mexican industrial sector to promote industrialization in Mexico. It aims specifically to benefit small-and medium-sized companies through technical assistance, development, and analysis of technical projects and through loans from their monetary funds. Although there are numerous funds, only one is actually of interest for this report. The Pollution Prevention Project Fund (Fondo para Proyectos de Prevención de la Contaminación–FIPREV) seeks to aid small-and medium-sized companies in the implementation of pollution control measurements. Funds are granted to programs that

a) Identify and develop potential pollution control measurements in small and medium sized companies and
b) Finance the implementation of certified and analyzed pollution control projects.

Terms: All loans are short-or medium-term loans. They can be granted in dollars or pesos and are covered for up to 80 percent of the project's costs. Companies receive preferential interest rates that are usually below current market rates. Repayment terms can range up to four years, depending on the project. Grace periods for repayment are sometimes granted.

Eligibility: Only small-and medium-sized companies that are based in Mexico can apply for loans. Financial stability must be proven to guarantee the repayment of the loan. Technical and administrative capacity to carry out the project is also required.

For more information:

FUNTEC
Manuel María Contreras No. 133–105
Col. Cuauhtémoc
06597, México, D. F.
México
Tel. 591–00–88, 591–00–91, 591–00–02,
Fax 592–68–82.
On the web: http://www.funtec.org

Ecoenergy's (EIC) CleanTech Fund[16]

Basics: Ecoenergy International Corporation, a U.S.-based company with offices in Boulder, Colorado, Washington, D.C., and Mexico City, provides energy solutions to companies throughout the world, although emphasis is strongly placed on projects in Mexico, Central, and South America. It is currently considered the leader in the area of carbon management services and was selected by the Interamerican Development Bank to develop and co manage a $35 million private equity fund. This fund will invest in small-and medium-sized Mexican companies that focus on energy efficiency and renewables, transportation efficiency, pollution prevention, and recycling. It hopes to fill the financing gap that currently exists in the Mexican environmental sector due to growing demand for environmental technologies. The money will be loaned to approximately twenty companies and above average returns are expected. Total equity, debt, and grant facilities are estimated at $75 million.

Terms: No terms have been specifically described yet. For more information contact Ecoenergy directly.

Eligibility: Mexican small- and medium-sized companies are eligible for funding.

For more information:

EIC Boulder Headquarters
3825 Iris Avenue, Suite 350
Boulder, CO 80301
Tel: (303) 473–9007; Fax: (303) 473–9060
On the web: http://www.eic-co.com

Loans from Multilateral Development Banks[17]

Basics: The leading institution providing multilateral lending and technical assistance for less-developed countries is the World Bank group, which includes the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The IFC and MIGA are both described in more detail elsewhere in this report.

Regional multilateral development banks (MDBs) include the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), and the African Development Bank.

The MDBs provide loans and development assistance to their developing member countries. Loans to middle-income and creditworthy poorer countries are made at or near market rates, while in many cases, the poorest countries receive interest-free loans. To promote private-sector growth and development, each of the MDBs provides some form of debt and equity financing at market rates for commercial enterprises.

MDB financing is relevant to small or start-up environmental companies because there may be opportunities to provide goods or services to an MDB-funded project. To become familiar with the portfolio of MDB projects, follow up with the contacts provided below.

Terms: Repayment terms on IBRD loans to middle-income developing countries are generally between 15 and 20 years with a three to five-year grace period. Repayment terms on IDA loans to low-income developing countries are between 35 and 40 years, including a 10-year grace period. Host country approval and sovereign guarantees are required. The projects are located in developing countries.

Eligibility: Public-sector loans are made exclusively to governments, while the IFC and the private-sector financing arms of other MDBs provide direct loans and equity financing for commercial ventures. MDBs provide many different types of financing, but concentrate on large-scale project support, as opposed to export finance. U.S. firms must compete for contracts on MDB-financed projects. MDB public-sector operations do not provide financing directly for U.S. exports.

Environmental/export focus: Environmental projects are a growing focus of MDBs work. To encourage environmental projects, extended grace periods are offered.

For more information: MDBs usually award project support through international competitive bidding processes. Announcements of project opportunities can be found in the following places:

- *Development Business*, a United Nations publication. Tel: (212) 963–1515.
- World Bank Public Information Center. Tel: (202) 458–5454.
- *The World Bank Monthly Operational Summary*. Tel: (202) 473–1155.
- The EBRD monthly *Procurement Opportunities*. Tel: (44 71) 338–6000.
- The IDB publishes *The IDB*, a monthly describing approved loans. Tel: (202) 623–1366.

In addition, each MDB maintains its own website with detailed information on upcoming projects. The International Trade Administration of the U.S. Department of Commerce maintains a counseling center on the MDBs and has commercial staff assigned to each of the development banks.

Multilateral Development Bank Operations (MDBO) maintains and manages all commercial activities with the MDBs. MDBO staff counsel U.S. firms on how to do business with the MDBs, help firms identify best prospects for their product or service, conduct an extensive outreach and education campaign, and provide advocacy support for U.S. firms competing on MDB-financed contracts.

Contact the MDBO at tel: (202) 482–3399; fax: (202) 273–0927.

World Bank[18]

Basics: Mexico is the third largest borrower from the World Bank and the Inter-American Development Bank in Latin America. Both institutions provide nearly $2.5 billion annually to Mexico for the implementation of major projects. One of the strategic areas targeted is the environment. Mexico receives credit to help control environmental deterioration and contamination of urban and rural areas.

There are two agencies in the World Bank group—the Multilateral Investment Guarantee Agency and the International Finance Corporation, that offer programs that are of interest to this report. In addition, the World Bank itself offers grants through its Institutional Grant Facility (IGF).

Multilateral Investment Guarantee Agency (MIGA)[19]

Basics: Part of the World Bank group, the Multilateral Investment Guarantee Agency (MIGA) offers long-term political risk insurance and advisory services. Types of foreign investments that can be covered include equity, shareholder loans, and shareholder loan guarantees, provided the loans have a maturity of three years. MIGA complements the activities of public and private insurance programs and the IFC. Working with member developing country governments, MIGA advises investors of new opportunities in those nations. Typical MIGA coverage includes war, revolution, or civil disturbance; breach of contract; currency transfer; and expropriation.

Terms*:* Investors may choose any combination from four types of coverage (Transfer Restriction, Expropriation, Breach of Contract and War and Civil Disturbance). Equity investments can be covered up to 90 percent and debt up to 95 percent, with coverages typically available for up to 15 years and, in some cases for up to 20 years. Premiums are determined on the basis of both country and project risk, with the effective price varying depending on the type of investment and industry sector.

Eligibility*:* The investment must be located in a member country and it must be new or associated with restructuring of an existing enterprise. Equity forms of direct investment qualify, as do technical contracts, franchising, and licensing agreements. Investments must contribute to host country development and meet local priorities. It is best to contact MIGA while still in the planning stage of a foreign venture.

For more information: *Multilateral Investment Guarantee Agency*
Tel: (202) 473–6165
On the Web: http://www.miga.org

International Finance Corporation[20]

Basics: The private-sector arm of the World Bank group, the IFC takes equity stakes in private sector companies and other entities such as financial institutions, and portfolio and investment funds in developing countries. The IFC always acts as a minority partner with other investors.

Terms: *Equity financing:* To ensure the participation of other private investors, the corporation generally subscribes to between 5 percent and 15 percent of a project's equity. IFC is never the largest stakeholder in a project and will normally not hold more than a 35 percent stake. IFC's equity investments are based on project needs and anticipated returns. The Corporation does not take an active role in company management.

Loans: Loans are issued in leading currencies, but local currency loans can also be provided. The loans typically have maturities of seven to 12 years. Grace periods and repayment schedules are determined on a case-by-case basis in accordance with the borrower's cash flow needs. If warranted by the project, IFC provides longer-term loans and grace periods (extensions sometimes up to 20 years). Loans are usually limited to 25 percent of the total estimated project costs and, on an exceptional basis, 35 percent for small projects. The IFC also provides its clients with technical and advisory support, joining financing and investors, and arranging for syndication with banks. The IFC does not conduct feasibility studies. All projects supported must meet World Bank and local environmental policies.

Eligibility: Generally, loans range from US$1 million to US$100 million and are provided to World Bank member countries. A special program for small businesses (including environmental) provides loans as small as $1 million.

Environmental/export focus: Some IFC funds are environmentally specific, such as the Terra Capital fund for biodiversity and the Renewable Energy and Energy Efficiency Fund. In addition to investing in environmental projects, the IFC advises firms on how to attract foreign/local investment in environmental ventures; studies the role of the private sector in providing environmental goods and services to promote market opportunities; and participates in the Global Environment Facility through cofinancing of investment projects in the areas of biological diversity, global warming, water pollution, and depletion of the ozone layer, with particular emphasis on supporting environmental programs of small and medium enterprises.

For more information:

IFC's Environment Division
Room I–10–157
1818 H Street, NW
Washington, D.C. 20433.

Tel: (202) 473–7954
On the Web: www.ifc.org

World Bank's Institutional Grant Facility[21]

Basics: The World Bank's Institutional Grant Facility (IGF) is a $25 million-grant facility for technical assistance projects in upstream institutional development and capacity building. It works closely with the United Nations Development Program (UNDP), the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD), and other United Nations system agencies.

Terms: Up to $500,000, with priority to requests that are innovative or exploit a special opportunity.

For more information: *Procurement Service Division*
The World Bank, 1818 H Street, NW
Washington, D.C. 20433.
Tel: (202) 458–2912
Fax: (202) 477–3129.

Inter-American Development Bank (IADB)[22]

Basics: The IADB finances many private-sector projects through its Multilateral Investment Fund (MIF). The fund was established in 1993 to encourage private-sector development throughout Latin America and the Caribbean. Currently, the MIF is equipped with US$1.3 billion in funds that it uses for grants or other investment mechanisms. MIF's main objective has been to support small-scale projects that pilot new approaches and act as a catalyst for larger reforms. The IADB has developed a "project pipeline" where all proposed and on-going projects can be reviewed. It can be found on the web at: <http://www.iadb.org/exr/pipeline/cicle.htm>

Quite recently, the MIF introduced the use of "clusters" for promising development approaches. These clusters consist of a group of six to 10 projects in a particular thematic area that are developed, supported, and reviewed according to specific strategies presented to the MIF Donors Committee. One of these clusters, the "Achieving Ecoefficiency through Cleaner Production and Environmental Management Cluster," deals with helping small- and medium-sized businesses become more ecoefficient by eliminating and reducing the causes of pollution, waste generation, and resource consumption. The MIF is still seeking additional projects for this cluster. To find out more about requirements concerning potential projects, please go to the MIF homepage at: <http://www.iadb.org/mif/website/default.asp>.

Terms: MIF projects need to fulfill a number of criteria before they are eligible for funding. Projects should be innovative and show an effective new approach, offer the potential to be replicated in other sector and/or countries (demonstration effect), present a credible plan and strong potential for financial sustainability (sustainability) and a local partner in the country carrying out the project (partnership). Projects can be eligible for grants but must present matching financing on part of the executing agency usually 30–50 percent of the total amount of the operation.

Projects in the "clusters" are also eligible for grants, but have to present counterpart financing and an adequate project proposal. Costs covered by the MIF may include all or part of the following general categories: consulting services; seminars/workshops; payment of trainers; material development; and licenses, software, and minor computing equipment.

For more information: *Multilateral Investment Fund (MIF)*
Inter-American Development Bank (IDB)
1300 New York Avenue, NW
Washington, D.C. 20577
Tel: (202) 623–1000
On the web: http://www.iadb.org

For more information concerning "clusters" please contact:
Mr. Daniel Shepherd
Operational Specialist
E-mail: daniels@iadb.org

Japan Bank for International Cooperation (JBIC)[23]

Basics: The JBIC, a Japanese multilateral investment bank, provides grants and loans to developing countries. Through its lending policies, it seeks to strengthen the development of the Japanese economy and to encourage economic and social development in developing countries. It does not seek to compete with commercial banks.

Aside from the provision of Untied Loans, there are also two other loan programs that are of interest to Mexico:

- The **Official Development Assistance (ODA) loan program** provides both bilateral and multilateral loans. Multilateral ODA consists of contributions and subscriptions to multilateral institutions such as the United Nations and others. Bilateral ODA can consist of bilateral loans and grants. Bilateral grants are divided into grant aid and technical cooperation grant aid is provided to very low-income countries. It can be used to support basic human needs (medical services, water supply and so on. and in some cases, infrastructure development) or to develop human resources. Through the Technical Cooperation program, the JBIC provides technical expertise to developing countries. ODA loans are soft loans with low interest rates and long repayment terms. These loans provide funds to develop economic and social infrastructure. ODA loans can be project loans (to finance infrastructure projects), loans provided for engineering services, or financial intermediary loans (loans provided to the financial institutions of the recipient country for the implementation of new policies).

- Through the **Private-Sector Investment Finance program**, the JBIC channels loans to Japanese companies interested in investing in developing countries and to the partner company (or companies) in the project country. Loans are provided to the prospecting, agriculture, forestry, and fishery sectors, for preparatory surveys and pilot projects, and for infrastructure projects.

Terms/Eligibility: At the time that this report was written, no information could be accessed concerning terms and eligibility for loans. It can be assumed, however, that Mexico qualifies for both Untied aid and the two aforementioned programs. As of April 2002, the JBIC had already made nine ODA loan commitments to Mexico. One of these loans is also mentioned in the chapter on water pollution.

For more information: Japan Bank for International Cooperation (JBIC)
On the web: http://www.jbic.go.jp/english

Bond and Equity Capital[24]

Bonds

Core features: Bonds are the major form of long-term debt. A bond is a written promise to repay borrowed money at a fixed interest rate and a fixed schedule, usually over 15 to 30 years. Both private companies and governments issue bonds as a principal means of obtaining working capital for general growth or for specific projects.

Types: Bonds come in many forms. Most relevant for environmental firms are government bonds. These bonds, usually issued by cities as municipal bonds, are the principal way of financing environmental infrastructure projects in the United States. Almost always tax-exempt, government bonds carry lower rates of interest than comparable commercial bonds; they are the major source of low-interest capital for publicly financed projects. There are two major classes of government bonds. General obligation bonds are secured by and paid for out of tax revenues. Revenue bonds, the type most in use today, are secured by and paid for out of the revenue streams of a particular project supported by the bond issue.

Limitations: Bond issues tend to be for large amounts, in the $100 million range, so their usefulness for export financing is minimal. However, bond issues for infrastructure projects overseas may be a way for customers to obtain financing independently of the exporter. Government bonds often require voter approval and the total amount of money that can be raised through bond issues may be capped.

Equity Capital

Core features: Equity financing entails ceding exclusive control over a company by selling ownership interest in it to outside investors. Rather than borrowing money and adding to financial liability, equity financing creates no obligation to pay principal and interest as with a loan. Investors' returns come from their shares of the firm's profits, such as dividends or capital gains at sale. For small environmental businesses, equity may come from individuals, venture capital companies, or parent companies, as well as from the public sale of stock. Equity capital can be provided in-kind, via contributions of land or buildings, personnel, and even from the use of a larger company's name, technology, business plan, or markets. Equity financing is one of the most creative and flexible ways to support a business.

Types: The key equity tools available from the private sector for financing environmental exports and projects outside the United States are share sales (including public offerings, venture capital, private placements, "angels," and depository receipts), foreign direct investment, and strategic alliances. Very limited equity capital is available directly from public-sector institutions. Partnerships with multilateral development banks or small-business investment corporations often motivate further investment from private sources.

Limitations: By definition, an equity investor owns a piece of a company and early-stage businesses may feel a loss of ownership if equity holders assume controlling positions. Terms for equity financing vary widely depending on the type of share issue, and outside advisors (lawyers, accountants) can be expensive for a small business. The type and time frame of returns that equity contributors demand also vary, increasing the challenges of arranging for this type of funding.

References

[1] International Trade Administration (ITA), U.S. Department of Commerce. 1996. "Mexico Environmental Export Market Plan." Prepared by Sierra International, LLC. (Cited 28 August,

2001), http://web.ita.doc.gov/ete/eteinfo.nsf/vwQFbyCountry and Aguilar, José. 2002. Telephone interview by author. San Diego, California (10 April)
[2] Treviño, Tim. 2002. Interview by IRSC staff. NADBank, San Diego, California (March 2002).
[3] Morris, Kenn. 2002. "Mexican Municipal and State Bond Financing Update." San Diego. Unpublished.,
[4] Standard and Poor's. 2002. "Sovereign Ratings List." (Cited 31 January), http://www.standardandpoors.com/RatingsActions/RatingsLists/S…/SovereignsRatingsLists.htm.,
[5] International Trade Administration. 2001. "Financing Environmental Exports-A Guide to the Fundamentals and Sources." (Cited February 2002), http://web.ita.doc.gov/ete/eteinfo.nsf/finance,
[6] International Trade Administration 2001
[7] International Trade Administration 2001 and Small Business Administration (SBA). 2002. "SBA Loan Program." (Cited March), http://www.sba.gov/financing/indexloans.htm
[8] Overseas Private Investment Cooperation (OPIC). 2002. "Finance Department." (Cited March), http://www.opic.gov/finance
[9] International Trade Administration 2001 and Export Import Bank Bank (Ex-Im Bank). 2002. "Ex-Im Bank Programs." (Cited 4 February), http://www.exim.gov/mover.html.
[10] North American Development Bank (NADBank). 2002. "General Information. Projects and Services." (Cited February), http://www.nadbank.org
[11] Environmental Protection Agency (EPA). 2001. "BECC and NADBank: Promoting Environmental Infrstructure on the U.S.-Mexico Border." (Cited 21 November), http://www.epa./gov/oia/mex.2.htm
[12] Bancomext, Banco Bital, Banorte and Banco Santander. 2002. (Cited January). Websites: http://www.bancomext.com, http://www.bital.com.mx, http://www.gfnorte.com.mx and http://www.santander.com.mx
[13] and Banco Nacional de Obras y Servicios Públicos (BANOBRAS). 2002. "FINFRA." (Cited 23 January), http://www.banobras.gob.mx
[14] International Trade Administration 2001 and Nacional Financiera, S.A. (NAFINSA). 2002. (Cited 23 January), http://www.nafinsa.com
[15] Fundación Mexicana para la Innovación y Transferencia de Tecnología en la Pequeña y Mediana Empresa (FUNTEC). 2002. "Misión y Objetivos. Programas." (Cited 31 January), http://www.funtec.org
[16] Econenergy International Cooperation (EIC). 2002. "The CleanTech Fund." (Cited 31 January), http://www.eic-co.com/CleanTech.htm.
[17] International Trade Administration 2001
[18] International Trade Administration 2001
[19] Multilateral Investment Guarantee Agency (MIGA). 2002. "Overview of MIGA's Investment Guarantee Service." (Cited 8 February), http://www.miga.org and International Trade Administration 2001
[20] International Finance Cooperation (IFC). 2002. "Products and Services." (Cited 8 February), http://www.ifc.org/proserv/products/loans/loans.htm
[21] International Trade Administration 2001
[22] Inter-American Development Bank (IADB). 2002. (Cited 25 March), http://www.iadb.org
[23] Japanese Bank for International Cooperation (JBIC). 2002. (Cited 18 April), http://www.jbic.go.jp
[24] International Trade Administration 2001